

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of State
State of Louisiana
Baton Rouge, Louisiana

November 27, 2002



Financial and Compliance Audit Division

***Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor***

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DEPARTMENT OF STATE
STATE OF LOUISIANA
Baton Rouge, Louisiana

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 2002

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

November 27, 2002

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Special Purpose Financial Statements
and Independent Auditor's Reports
As of and for the Year Ended June 30, 2002

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November 18, 2002

Independent Auditor's Report
on the Financial Statements

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Department of State, a department within Louisiana state government, as of and for the year ended June 30, 2002, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Department of State. Our responsibility is to express an opinion on these special purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1 to the financial statements, the accompanying special purpose financial statements present only the funds of the Department of State. As such, they present the appropriated activity of the department that are part of the accounts and fund structure of the State of Louisiana. The appropriated fund reflects appropriated activity of the department that is part of the General Fund (and other funds) of the State of Louisiana. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. Accordingly, the accompanying special purpose financial statements are not intended to and do not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

LEGISLATIVE AUDITOR

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
Audit Report, June 30, 2002

In our opinion, the accompanying special purpose financial statements present fairly, in all material respects, the balances within the General Appropriation Fund of the Department of State at June 30, 2002, and the transactions of this fund for the year then ended, on the basis of accounting described in note 1-B.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2002, on our consideration of the Department of State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the Department of State and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with a large initial "D" and a stylized "K".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

JA:JR:RCL:ss

[DOS02]

**DEPARTMENT OF STATE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND**

Balance Sheet (Legal Basis), June 30, 2002

ASSETS

Cash (note 1-D)	\$732,032
Receivables - fees and self-generated revenues	248,629
Due from others (note 7)	11,008
Due from inter/intra fund transfers	3,801
Other	2,155
Inventories of materials and supplies (note 1-E)	<u>380,175</u>

TOTAL ASSETS	<u><u>\$1,377,800</u></u>
--------------	---------------------------

LIABILITIES AND FUND EQUITY

Liabilities:

Payables (note 5)	\$754,401
Advance from state treasury (note 3)	7,000
Due to state treasury (note 8)	<u>381,254</u>
Total Liabilities	<u>1,142,655</u>

Fund Equity - fund balances:

Reserved for inventories of materials and supplies (note 1-E)	380,175
Unreserved - undesignated (deficit) (note 2)	<u>(145,029)</u>
Total Fund Equity	<u>235,145</u>

TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$1,377,800</u></u>
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The accompanying notes are an integral part of this statement.

**DEPARTMENT OF STATE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND**

**Statement of Revenues, Expenditures, and
Changes in Fund Balance (Legal Basis)
For the Year Ended June 30, 2002**

REVENUES

Appropriated by legislature:

State General Fund	\$2,081,725
State General Fund by:	
Fees and self-generated revenues	9,591,155
Interagency transfers	284,420
Total revenues	<u>11,957,300</u>

EXPENDITURES

Administrative	3,326,575
Elections	1,331,684
Archives and records	2,307,661
Museum and other operations	1,835,471
Commercial	2,812,571
Total expenditures	<u>11,613,962</u>

EXCESS OF REVENUES OVER EXPENDITURES

343,338

OTHER FINANCING SOURCES (Uses)

Transfers in (note 8)	23,142
Transfers out (note 8)	<u>(381,254)</u>
Total other financing sources (uses)	<u>(358,112)</u>

**EXCESS OF EXPENDITURES AND OTHER USES
OVER REVENUES AND OTHER SOURCES**

(14,774)

FUND BALANCE AT BEGINNING OF YEAR

156,520

INCREASE IN RESERVE FOR INVENTORY

93,399

FUND BALANCE AT END OF YEAR

\$235,145

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF STATE
STATE OF LOUISIANA
GENERAL APPROPRIATION FUND**

**Statement of Revenues, Expenditures, and
Unexpended Appropriation - Budget
Comparison of Current-Year Appropriation -
Budget (Legal Basis) and Actual
For the Year Ended June 30, 2002**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Appropriated by legislature:			
State General Fund	\$2,081,725	\$2,081,725	
State General Fund by:			
Fees and self-generated revenues	9,821,810	9,215,343	(\$606,467)
Interagency transfers	323,816	284,420	(39,396)
Shreveport River Convention Center	31,333	17,700	(13,633)
Total appropriated revenues	<u>12,258,684</u>	<u>11,599,188</u>	<u>(659,496)</u>
EXPENDITURES			
Appropriated for:			
Administrative	3,370,303	3,322,011	48,292
Elections	1,614,953	1,331,381	283,572
Archives and records	2,493,454	2,302,362	191,092
Museum and other operations	1,845,058	1,826,492	18,566
Commercial	2,934,916	2,808,780	126,136
Total appropriated expenditures	<u>12,258,684</u>	<u>11,591,026</u>	<u>667,658</u>
UNEXPENDED APPROPRIATION - CURRENT YEAR	<u>NONE</u>	<u>\$8,162</u>	<u>\$8,162</u>

The accompanying notes are an integral part of this statement.

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Notes to the Financial Statements
As of and for the Year Ended June 30, 2002

INTRODUCTION

The Department of State is a department within the State of Louisiana reporting entity. The department was created in accordance with Title 36, Chapter 26 of the Louisiana Revised Statutes of 1950, as a part of the executive branch of government. As provided by Article IV, Section 7 of the Louisiana Constitution of 1974, the secretary of state certifies all official documents of the Louisiana Legislature, governor, commissions, et cetera; administers the state corporation laws; compiles and promulgates the official returns of elections for statewide offices; and prints and distributes certain official publications of the state. The Archives and Records Division serves as the official depository of the records and documents of various state agencies, departments, and political subdivisions. The following museums are under the jurisdiction of the secretary of state: the Old State Capitol, Louisiana State Exhibit Museum, Louisiana State Cotton Museum, Louisiana Oil and Gas Museum, Old Arsenal Museum, Pentagon Barracks, the Shop at the Top of the State Capitol, Delta Music Museum, Garyville Timbermill Museum, and the Eddie G. Robinson Museum. The department's 182 full-time employees serve the public from its offices in Baton Rouge and the museums located throughout the state.

The following advisory boards and commissions under the jurisdiction of the Department of State are not appropriated and are not included in the accompanying financial statements. These boards and commissions are established by state law or order of the secretary of state.

	<u>Louisiana Revised Statute</u>
Advisory Board of the Old State Capitol	25:373
Regional Museum Governing Board of the Louisiana State Exhibit Museum	25:379.1
Governing Board of the Louisiana State Cotton Museum	25:380.1
Governing Board of the Old Arsenal Museum	25:551
Governing Board of Eddie G. Robinson Museum	25:1241
Governing Board of the Louisiana Oil and Gas Museum	25:380.22
State Board of Election Supervisors	18:23
First Stop Shop Coordinating Council	49:229.1

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

	Secretary of State Order
Secretary of State's Commission on Corporations	WFM 88-1
Secretary of State's Commission on Archives	WFM 88-2
Secretary of State's Commission on the Louisiana Old State Capitol	WFM 91-1
Secretary of State's Commission on the Louisiana Museum of Antique and Classic Automobiles	WFM 93-1

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis prescribed by the Division of Administration, Office of Statewide Reporting and Accounting Policy, as described in the following notes.

GASB Codification Section 2100 establishes criteria for determining the governmental reporting entity and has defined the governmental reporting entity to be the State of Louisiana. The accompanying financial statements present activity of a department of state government and, therefore, are a part of the funds of the State of Louisiana and its basic financial statements.

A. FUND ACCOUNTING

The Department of State uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act. The special purpose financial statements do not include any noncurrent assets or liabilities. Noncurrent assets, fixed assets, and long-term liabilities are reflected in the State of Louisiana's basic financial statements.

The fund presented in the special purpose financial statements includes the General Appropriation Fund, which accounts for all appropriated revenues, operating expenditures, and minor capital acquisitions of the department.

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The fund in the accompanying financial statements measures the resources provided by the legislature to fund current-year expenditures and the use of those resources by the department.

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with applicable statutory provisions and regulations of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

Under the foregoing legal provisions, the department uses the following practices in recognizing revenues and expenditures:

Revenues

State General Fund appropriations are recognized in the amounts appropriated, to the extent withdrawn from the state treasury. Fees and self-generated revenues, interagency transfers, and income not available are recognized in the amounts earned, to the extent that they will be collected within 45 days of the close of the fiscal year.

Expenditures

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except that obligations of employees' vested annual and sick leave are recorded as expenditures when paid. Furthermore, expenditures of a long-term nature for which funds have not been appropriated during the current year are not recognized in the accompanying financial statements.

Other Financing Sources (Uses)

Transfers made from/to the state treasury are recognized in the year the department receives or makes the transfers, in accordance with provisions of the Division of Administration, Office of Statewide Reporting and Accounting Policy.

C. BUDGET PRACTICES

The appropriation made for the general operations of the department is an annual lapsing appropriation and is recorded in the General Appropriation Fund.

1. The budget process for the general appropriation is an annual appropriation valid for one year. Revenues and expenditures for budget purposes are recognized on the same basis of accounting as described in note 1-B, except that salaries and related benefits are recognized when paid on Statement C. The revenues and expenditures of the department, as shown on Statement B, are reconciled with the respective amounts shown on Statement C as follows:

DEPARTMENT OF STATE
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

Statement B revenues	\$11,957,300
Add - other fund sources	23,142
Less - other fund uses (self-generated funds collected but not spent)	<u>(381,254)</u>
Statement C revenues	<u>\$11,599,188</u>
Statement B expenditures	\$11,613,962
Add - prior-year payroll accrual	130,256
Less - current-year payroll accrual	(145,029)
Less - current-year unexpended appropriation	<u>(8,163)</u>
Statement C expenditures	<u>\$11,591,026</u>

2. The department is prohibited by statute from over expending the program levels established in the General Appropriations Act.
3. Budget revisions are granted by the Joint Legislative Committee on the Budget. Interim emergency appropriations may be granted by the Interim Emergency Board. The budget information included in the financial statements includes the original appropriation plus subsequent amendments as follows:

Original approved budget - Act 12 of 2001	\$12,027,406
Increase in fees and self-generated revenues	244,294
Reduction in state general fund	<u>(13,016)</u>
Total	<u>\$12,258,684</u>

D. CASH

Cash is composed of the following:

Under control of the department - petty cash (on hand and in banks)	\$4,845
Cash on deposit with the state treasury	<u>727,187</u>
Total	<u>\$732,032</u>

Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. The department has deposit balances (collected bank balances) of \$4,845 at June 30, 2002, for which the department has control. These deposits are fully secured from risk by federal deposit insurance (GASB Risk Category 1).

DEPARTMENT OF STATE
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

Cash balances held and controlled by the state treasurer are secured from risk by the state treasurer through separate custodial agreements, and the risk disclosures required by generally accepted accounting principles are included within the state's basic financial statements. The following is a summary of cash in the state treasury:

Means of finance	\$55,841
ISIS operating	<u>671,346</u>
Total	<u><u>\$727,187</u></u>

E. INVENTORIES OF MATERIALS AND SUPPLIES

Inventories, consisting of office supplies stored at the Archives Building and election supplies and materials stored and maintained on the premises of an outside vendor, are valued at cost and are recorded as expenditures at the time individual inventory items are purchased. The department and the vendor use periodic inventory systems and employ the first-in, first-out valuation method using the most recent cost of the inventory items, which approximates market. Reported inventories of \$380,175 are equally offset by fund balance reserves that indicate they do not constitute available spendable resources even though they are components of net current assets.

F. LEAVE BENEFITS

Employees earn and accumulate annual and sick leave at various rates, depending on their years of service, without limitation on the balance that can be accumulated. Upon termination, employees or their heirs are compensated for up to 300 hours of unused annual leave at the employee's hourly rate of pay but are not compensated for unused sick leave. Upon retirement, unused annual leave in excess of 300 hours plus unused sick leave are used to compute retirement benefits. The liability for unused annual and sick leave payable at June 30, 2002, computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards Section C60.105, is estimated to be \$622,900. The leave payable is not recorded in the accompanying financial statements.

Certain employees of the department are eligible to earn compensatory time, as defined by the Department of Civil Service and the Fair Labor Standards Act. These employees can earn and accumulate one hour or one and one-half hours for each hour of overtime worked, depending on their position and rate of pay. Generally, the employees are allowed to carry up to 360 hours of accrued compensatory leave from one calendar year to another. All unused compensatory leave earned at the one and one-half hours for each hour of overtime worked rate shall be paid to the employee upon separation or transfer. All unused compensatory leave earned hour for hour may be paid to the employee upon separation or transfer. The liability for accrued compensatory leave at June 30, 2002, computed in accordance with GASB Codification Section C60.105, is

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Notes to the Financial Statements (Continued)

estimated to be \$4,296. Accumulated compensatory leave is not accrued (reflected) in the accompanying special purpose financial statements.

G. LONG-TERM OBLIGATIONS

The department is by statute not allowed to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the department arising from installment purchases, judgments, compensated absences, or any other source are not recognized in the accompanying special purpose financial statements.

H. DEFERRED COMPENSATION PLAN

Certain employees of the department participate in the Louisiana Deferred Compensation Plan adopted under the provisions of Internal Revenue Code Section 457. Complete disclosures relating to this statewide plan are included in the separately issued audit report for the plan available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

I. GASB 34 ACCRUALS

The following schedule represents the adjustments necessary to convert modified accrual basis accounts receivable, as shown in Statement A, to full accrual basis accounts receivable as required by the Office of Statewide Reporting and Accounting Policy.

<u>Revenue Types</u>	<u>Accounts Receivable Modified Accrual Basis</u>	<u>Full Accrual Adjustment</u>	<u>Allowance for Doubtful Accounts</u>	<u>Accounts Receivable Full Accrual Basis</u>
Appropriated revenues - fees and self-generated - other	\$248,629	\$592	\$408	\$248,813
Total fees and self-generated	<u>\$248,629</u>	<u>\$592</u>	<u>\$408</u>	<u>\$248,813</u>

2. FUND DEFICIT

The General Appropriation Fund had a fund deficit of \$145,029 for the year ended June 30, 2002. The deficit was the result of the accrual of payroll payables that were required by the Office of the Governor, Division of Administration, but not included in the 2001-2002 fiscal year budget. The department will resolve the deficit by liquidating the liabilities with funds appropriated in the 2002-2003 fiscal year. These obligations are included in the accompanying financial statements.

DEPARTMENT OF STATE
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

3. ADVANCE FROM STATE TREASURY

The department has received an advance from the state treasury for petty cash imprest fund operations totaling \$7,000. The advance, as reflected in the accompanying statements, represents a liability to the department and must be repaid if not annually authorized.

4. PENSION PLAN

Substantially all employees of the department are members of the Louisiana State Employees Retirement System, a multiple-employer, defined benefit pension plan. Required disclosures for the plan for fiscal year 2002 are included in the Louisiana Comprehensive Annual Financial Report prepared by the Louisiana Division of Administration, Post Office Box 94095, Baton Rouge, Louisiana 70804-9095.

5. PAYABLES

The following is a summary of payables for the General Appropriation Fund at June 30, 2002:

Accounts payable	\$609,372
Accrued payroll	<u>145,029</u>
Total	<u><u>\$754,401</u></u>

6. LEASE AND RENTAL OBLIGATIONS

The department has several operating leases for office space. The remaining annual operating lease payments are presented as follows:

<u>Fiscal Year</u>	
2002-2003	\$747,362
2003-2004	751,612
2004-2005	755,863
2005-2006	760,113
2006-2007	856,101
2008-2012	<u>3,646,489</u>
Total	<u><u>\$7,517,540</u></u>

The lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period. Operating lease expenditures for the fiscal year ended June 30, 2002, totaled \$197,363.

DEPARTMENT OF STATE
STATE OF LOUISIANA

Notes to the Financial Statements (Continued)

7. DUE FROM OTHERS

The following is a summary of amounts due from others for the General Appropriation Fund at June 30, 2002:

Due from other agencies - interagency transfers:	
Children's Special Health Services	\$639
Department of Education	10
Department of Health/Human Services	87
Louisiana State University - Accounting Services	295
Department of Social Services - Office of Community Services	5,685
East Louisiana State Hospital	4,292
	<hr/>
Total	<u><u>\$11,008</u></u>

8. OTHER FINANCING SOURCES AND USES

As shown on Statement B, other financing sources (transfers in) totaled \$23,142 while uses (transfers out) totaled \$381,254 for the year ended June 30, 2002. The transfers in consist of statutorily dedicated funds used for current year disbursements. The transfers out consist of self-generated funds collected but not spent, which are due to the State Treasurer's Office at June 30, 2002.

9. INCOME NOT AVAILABLE

During 2002, the department collected \$36,198 identified by the Division of Administration, State Budget Office, as income not available that was remitted to the state treasury:

Elections	\$1,418
Microfilm	27,331
Uniform commercial code	1,589
Central Registry	2,757
Miscellaneous	3,103
	<hr/>
Total	<u><u>\$36,198</u></u>

**10. JUDGMENTS, CLAIMS, AND
SIMILAR CONTINGENCIES**

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

**DEPARTMENT OF STATE
STATE OF LOUISIANA**

Notes to the Financial Statements (Concluded)

11. NONPROFIT CORPORATIONS

The accompanying financial statements do not include the accounts of the following nonprofit corporations affiliated with the museums under the jurisdiction of the Department of State: the Louisiana State Cotton Museum Foundation, Inc.; Friends of the Cotton Museum, Inc.; Friends of Louisiana State Exhibit Museum, Inc.; Old State Capitol Foundation, Inc.; Old State Capitol Cooperative Endeavors, Inc.; and the Oil and Gas Museum Historical Foundation, Inc. These corporations are subject to audit by independent certified public accountants. By agreement with the Department of State, the Old State Capitol Foundation, Inc., operates a gift shop in the Old State Capitol. The foundation is responsible for the gift shop's staffing and inventory and uses the proceeds for promotion, beautification, improvement, and development of the facilities, grounds, and exhibits of the Louisiana Old State Capitol.

12. MUSEUM HOLDINGS

The Department of State has policies and procedures concerning accessions, deaccessions, and loans of holdings in the museums under its jurisdiction. A catalog of the holdings is maintained at each museum. The museums' buildings, holdings, and items on loan are insured by the Office of Risk Management.

**13. POSTRETIREMENT HEALTH CARE
AND LIFE INSURANCE BENEFITS**

The department provides certain continuing health care and life insurance benefits for its retired employees. Substantially all of the department's employees become eligible for these benefits if they reach normal retirement age while working for the department. These benefits for retirees and similar benefits for active employees are provided through an insurance company whose monthly premiums are paid jointly by the employee and the department. The department's costs of providing retiree health care and life insurance benefits are recognized as expenditures when the monthly premiums are paid. For the year ended June 30, 2002, the cost of benefits for 40 retirees totaled \$144,623.

OTHER REPORT REQUIRED BY
GOVERNMENT AUDITING STANDARDS

The following pages contain our report on compliance with laws and regulations and on internal control as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. The report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance matters that would be material to the presented financial statements.



DANIEL G. KYLE, PH.D., CPA, CFE
LEGISLATIVE AUDITOR

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November 18, 2002

Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit
of the Special Purpose Financial Statements

HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Department of State, a department within Louisiana state government, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 18, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department of State's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by

LEGISLATIVE AUDITOR

**HONORABLE W. FOX MCKEITHEN
SECRETARY OF STATE
DEPARTMENT OF STATE
STATE OF LOUISIANA**

Compliance and Internal Control Report

November 18, 2002

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employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Department of State and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with a large initial "D" and a stylized "K".

Daniel G. Kyle, CPA, CFE
Legislative Auditor

JA:JR:RCL:ss

[DOS02]